

Costs of Developing a Foreign Market for a Small Business: The Market & Non-Market Barriers to Exporting by Small Firms

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In response to the globalization of businesses, there has been a proliferation of international market searching and penetration by small business owners. In 2001, 230,736 small and medium-sized firms with fewer than 500 workers exported goods. Small and medium-sized companies account for 97 percent of all U.S. exporters; their exports were valued at \$182 billion, or 29.2 percent of all U.S. goods exported. Small business decisions to export are influenced by many factors, the most crucial of which is the cost of developing a foreign market. This research uses case studies to investigate the costs and difficulties small firms face in initiating export activity

Overall Findings

The author studied the experiences of nine U.S. exporters in South Carolina. Feedback from the chief executive officers (CEOs) of these firms suggests that psychological, personal, and opportunity costs, such as the time involved in learning how to perform the logistics of exporting and overcoming the fear of exporting are often more important than out-of-pocket costs. Hence, developing a process to communicate information to small firms seems to be important in helping firms export more effectively.

Highlights

- The sample firms initiated exporting generally in reaction to customer inquiries, rather than as the result of a carefully planned strategic initiative. None

were strongly export-oriented, and most did not have a written business or marketing plan for selling their products overseas.

- Opportunity costs, especially of time, are significant barriers to exporting or to increasing export behavior. Exporting takes time and energy that is more profitably spent on domestic operations.
- The sample firms identified transaction costs as problems to be anticipated and overcome, but not as insurmountable barriers to exporting.
- The firms depended heavily on modern information technology to initiate and support their exporting efforts.
- The barriers to exporting are situation-specific, thus reducing the substantive value of developing a definitive list of export barriers.
- Because this study is based on only nine cases in an effort to explore in depth the issues associated with barriers to foreign market entry, it should not be used to draw general implications for export policy pertaining to all small firms. More research will be needed to learn whether these findings apply more broadly, for example, in the service sector.

Data Sources and Methodology

This research adopted a case-study method. Nine cases were chosen to explore the dynamic, decision-making processes of developing a foreign market. The South Carolina Export Consortium, a not-for-profit organization that assists South Carolina companies with international trade issues, provided a list

of small exporting firms. Data were collected from in-depth interviews with entrepreneurs, founders, and/or managers deeply involved with international decision-making processes, companies' websites, internal and external documentation, product and firm brochures, and other secondary data.

This report was peer-reviewed consistent with Advocacy's data quality guidelines. More information on this process can be obtained by contacting the Director of Economic Research at advocacy@sba.gov or (202) 205-6533.

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